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The War Debts

discussed by

W. W. CUMBERLAND
PAUL M. MAZUR

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SPEAKERS' TABLE

PROF. HERBERT FEIS—*Of the Council on Foreign Relations, Inc.; author, "Europe: The World's Banker, 1870-1914." etc.*

DR. MAX WINKLER—*Economist, of Bertron, Griscom & Co., Inc.; author, F. P. A. Information Service annual analysis of American foreign loans*

ROBERT B. WARREN—*Of Case, Pomeroy & Co., Inc.*

MISS JOSEPHINE SCHAIN—*National Director, Girl Scouts; third vice-president, National Committee on the Cause and Cure of War*

FRANCIS H. SISSON—*Vice-President, Guaranty Trust Company of New York*

GARRARD WINSTON—*Lawyer, of Shearman & Sterling; under-secretary of the Treasury, 1923-27; secretary, American Debt Funding Commission*

MR. CUMBERLAND—*Formerly economic advisor, State Department; partner, Wellington & Company*

MR. McDONALD—*Chairman*

MR. MAZUR—*Partner, Lehman Brothers; author, "America Looks Abroad"*

DAVID SARNOFF—*President, Radio Corporation of America; associated with the Second Committee of Experts on the Reparation Problem*

ALBERT LYTLE DEANE—*President, General Motors Holding Corporation; Treasurer, Foreign Policy Association*

DR. FLORENCE R. SABIN—*Member, Rockefeller Institute for Medical Research*

JOHN BAKELESS—*Author, "The Economic Causes of Modern War," "The Origin of the Next War," etc.*

S. PALMER HARMAN—*Financial editor, Scribner's Magazine*

SCOVILLE HAMLIN—*Editor, "The Menace of Overproduction"*

The War Debts:
Do They Hamper World Recovery?

MR. JAMES G. McDONALD, Chairman

I AM told by all of the speakers that they do not expect to be very interesting in their main talks, but that they hope in the question period to justify your coming and also justify you who are listening in. As a matter of fact, whenever a speaker is modest it is really a sign that he is quite confident of being very good.

In any case, the question period should be interesting if I am to judge by one fact: A single member of this audience has handed me eighteen questions. All of those questions are to be addressed to one of the speakers. If the rest of the audience does anything as well, we will have a very full question period.

There are two speakers, each of them to have thirty minutes and no more. The first speaker is Mr. W. W. Cumberland, trade expert with the War Trade Board in Washington during the war; economic expert with the Reparation Financial Commissions during the American Commission to Negotiate Peace in Paris; foreign trade advisor of the Department of State, 1920 and 1921; financial commissioner and superintendent general of the customs, Republic of Peru in 1921 to 1923; financial advisor and general receiver of the Republic of Haiti from 1924 to 1927; now partner of Wellington and Company.

We are very glad to welcome Mr. Cumberland as our first speaker today on the subject of war debts.

MR. W. W. CUMBERLAND

MR. CHAIRMAN, LADIES AND GENTLEMEN: Ordinarily, those of us who attend the luncheons of the Foreign Policy Association have the pleasure of listening quietly and pleasantly to an afternoon's entertainment. But today we shall have to do some rugged thinking. I am afraid that I, for my part, shall not be able to make the subject of war debts either especially interesting or especially entertaining.

This is one of the hardest subjects in economics, and we shall have t resign ourselves to doing some reasonably hard thinking if we are to ge any benefit or make any progress in working toward an answer to th question, "The War Debts: Do They Hamper World Recovery?"

In order that Mr. Mazur will not have the opportunity of saying it firs I shall anticipate him. Of course the war debts hamper world recovery There are many other things that hamper world recovery. But that doe not mean that the war debts are any major factor in the present depressio nor does it necessarily mean that it would be wise to eliminate all or an part of the things which now hamper world recovery. That is becaus most of us agree that the present depression is just a phase, and we hop it is a short phase, and any permanent action which might be taken t remedy what is undoubtedly only a temporary situation might be decidedl undesirable.

In order to appreciate the size of the question of war debts it will b necessary to use certain statistics. But I shall attempt to limit those a much as possible.

Most persons have fallen into the error of considering the war debts i terms of billions of dollars, whereas the proper approach is on the basis o annual payments which are measurable in millions; and an even more un derstandable approach is to reduce it to what it usually amounts to, cent or fractions of cents per day, per capita. When we do that we get correct idea of the size of the problem, and we can correlate the proble to other economic phenomena with which we are more or less familiar.

At the close of the war there was a mass of obligations outstanding be tween various countries. All of the figures which I shall use will be i round terms. Some of them do not apply to exactly the same date. How ever, I think they will be true for all reasonable and practical purposes.

There was owing to the United States a sum, roughly, of $12,000,000, 000, to Great Britain $11,000,000,000, to France about $2,500,000,00 Great Britain and France were, of course, heavily indebted to the Unite States. Furthermore, under the terms of the Young Plan, Germany i now called upon to pay a sum which, taken at present value on a 5½ per cent basis, amounts to some $8,000,000,000.

Those, therefore, are the problems and the figures with which we sha have to deal today. In brief, we can eliminate almost all of the countrie except the United States and Germany from consideration. The Unite States is the net creditor; Germany the net debtor. All of the other cou tries receive as much or more from Germany on reparation or from othe debtors on war debt accounts, as they pay to the United States. The therefore, are merely transfer agents.

Inasmuch as the principal payer, on war debt account, Great Britain, has stated in the terms of the Balfour Note that it will demand from its debtors only that amount which is necessary to pay its debts to the United States, we shall see, I think, that any change in war debt arrangements would have the effect of impinging on the United States as the creditor, and it would have the effect of relieving Germany of making certain payments.

I think that this simplifies the problem and gives us the opportunity to attack it.

The arrangements for payment that were made by the United States are somewhat as follows: The total debt was considered plus interest to the dates of funding, and then the principle of capacity to pay was adopted by the American authorities who had the problem in hand.

Those debts were contracted for various purposes. Some were utilized to liquidate credits which had been obtained in the United States prior to our entrance into the war. Certainly, it would seem reasonable that the United States government should be reimbursed for such payments. Other credits were extended for the purpose of buying non-military supplies in the United States, precisely those which had constituted the majority of our foreign trade with the same countries in times of peace. Those things would have had to be purchased, war or no war. Other very important sums were obtained to support the exchanges of borrowing countries, this of course being a benefit to those countries and not to the United States. Further sums were loaned after the Armistice for relief and rehabilitation, and other credits were extended for the purchase of excess stocks of army supplies in Europe.

As actually funded, assuming 5 per cent as a reasonable basis, it develops that all of the countries had their debts cancelled to an equivalent or greater extent than the amount necessary to cover borrowings for strictly war purposes, all, with the exception of Great Britain.

In short, the amounts which we are now asking our former associates in the war to pay are those which were borrowed before the war, after the termination of the war, and for purposes not connected definitely with the war. That is true except in the case of Great Britain. In the latter case we must recall that Great Britain obtained, as a result of the war, a million square miles of territory, some of which has great potential value. Great Britain also was relieved of a serious threat on the part of the German navy and of German industrial competition. Hence, it seems fair to conclude that the war debts to the United States were not only reasonably, but generously, settled.

Let us now turn to the payments: As I say, we should not so much confine attention to the gross debt as to the annual payments which these

countries are making to the United States, if we are properly to evaluate the burden and the effect on the present world depression.

In the last year these countries paid, principal and interest, some $215,000,000 to the United States treasury on war debt account. This is a large sum, but it amounted to but one-half of one per cent of the estimated national incomes of the countries which made the payments. When put in those terms I am sure it does not seem so formidable.

Furthermore, when we correlate the payments which are being made to various other factors in the economic and financial structure we find again that exaggeration, even gross exaggeration has been customary. In the case of the countries concerned, for example, we find that these payments amount to 2.7 per cent of their annual budgets. They spend more than that for almost any other purpose that seems agreeable. For instance, take armaments alone. We find that they spend eight times as much for armaments, certainly an expenditure within their own volition. They can decide how much they wish to spend on armaments, and they actually decide to spend eight times as much for armaments, not including pensions, as they pay us on war debt account. Then, on the basis of foreign trade the payments amount to 1.1 per cent, that is, of the total volume of the foreign trade of the respective countries.

So when we hear that we are impoverishing the countries concerned, let us remember that we are taking one-half of one per cent of their annual income; when we hear that we are crushing them under a load of taxation, let us remember that it is 2.7 per cent of their budgets; when we hear that trade is being thrown into demoralization, let us remember that it is 1.1 per cent of the trade of the countries in question.

From the point of view of the United States, we find that the payments amount to about 5 per cent of our export trade alone. Inasmuch as that export trade fluctuates by substantially more than $200,000,000 a year on the average, I think it would be hard to prove that the war debts constitute any serious burden on our foreign trade, or that cancellation or reduction of the debts would so stimulate foreign trade that the net result would be profitable for us.

Let me try to illustrate. Of course, foreign trade is not profitable to 100 per cent. Costs of the merchandise which we send abroad have to be met just like the costs of any other article of production. If we assume that 10 per cent is a reasonable profit on foreign merchandise, we should have to come to the conclusion that American foreign trade would increase by more than $2,000,000,000, or 50 per cent of our present export trade to make the cancellation of these war debts profitable.

We hear, for example, that we are receiving millions while billions are

going out the window. I do not think that this contention has been tested by facts. When we analyze what we receive from debt payments and what we might gain by cancellation, we find first of all that it is a relatively small problem. We find, secondly, that there is almost no possibility that our foreign trade could be affected favorably in such manner and to such extent that we would win back what we would lose by cancellation.

To illustrate again, let us say that we cancelled $215,000,000 of payments per year. That sum would be distributed among our present debtors. If the Balfour principle and certain clauses of the Young Plan are to be made effective the major portion of that sum would accrue to Germany. Of course, foreign trade is a relatively small proportion of total German economy. There, as in other countries, the majority of business consists of domestic business. Hence, the equivalent of such payments as Germany would not have to make would be available for domestic consumption. A part of that would find its way into foreign trade. The United States would receive its small percentage of that foreign trade.

When you funnel that down to what the United States would get out of cancellation in the way of expanded foreign trade it can be detected, but it is certainly not of such magnitude as would lead us out of the depression in which the country is now involved.

On the basis of annual income for the United States our debt receipts amount to about one-fifth of one per cent of such annual income. From that some try to raise the point that we could cancel and not feel it very much. Of course that is true; the United States can sacrifice a credit of $200,000,000 per year and not go bankrupt. But, by very definition, the European countries who were our associates in the war, having an annual income of $42,000,000,000 can probably pay one-half per cent of that income to us and also not feel it very severely; particularly as that sum is collected from Germany rather than taken from their own earnings.

Let us reduce the matter to a per capita basis. Each Englishman pays to the United States, or better still transfers, the equivalent of $3.60 per year on debt account; each Frenchman transfers 80c.; each Italian transfers 12c.; not per day, nor per week, nor per month, but per year.

When reduced to that basis I am sure that the war debts are not the frightful ogre that has sometimes been portrayed.

Let us turn to Latin America. We find there, for example, that some of the relatively undeveloped countries, in comparison with Europe at least, such as Argentina and Chile, have larger payments on foreign debt account than even Great Britain. For example, the Argentine foreign debt service comes to about $4 per capita, and the Chilean debt service to

$9 per capita, as against $3.60 for an Englishman, 80c. for a Frenchm and 12c. for an Italian for war debts to the United States.

As far as Germany is concerned, the burden is relatively heavier. T Young Plan payments call for about $475,000,000 per year. That amou to about 4 per cent of German income, to 17 per cent of German expor to about 18 per cent of the German budget, and it also amounts to 12 p cent of the total debits in the international balance of payments of Ge many.

Frequently persons who do not specialize in financial matters seem believe that foreign trade measures the international balance sheet of t country. By no means is that true. There are many other items. Fr quently those items in the aggregate are larger than foreign trade. So find the real burden on the exchanges these debt payments must be co related with the balance of payments and not with either imports or e ports or trade as a whole, but international debits and credits as a who On that basis, as I say, it amounts to only 12 per cent of the German fo eign transactions during a year on the debit side.

Each German pays $7.30 per year for reparation. On a daily basis th amounts to 2c. per German. We do not have to adopt the theory of so war guilt to arrive at the conclusion that prior to the war the German go ernment was an aggressive government and that during the war there we certain features which at least convince most people that reasonable repar tion payments on the part of Germany are justified. When we realize th each German is called upon to pay 2c. a day, I believe that for a strong i dustrial country such payment is not excessive.

Each Britisher pays 1c. a day, or as I say transfers 1c. to the Unit States, each Frenchman is called upon for the enormous burden to me his war debts to the United States of 1/5c. a day and each Italian is call upon for 1/33c. a day.

We have heard that the United States is enriching itself at the expen of its debtors. Each of us here receives on an average of ½c. a day war debt account. To put the illustration in somewhat different for we can phrase it this way, each German is called upon at present under t terms of the Young Plan to sacrifice himself to the extent of one beer p day in order to meet his reparation payments. Each Britisher has to d prive himself of going to the movies once a month; each Frenchman h to give up, once a year, a bottle of moderately good wine; each Italian h to refuse to smoke one cigar a year so that his debt can be paid.

I do not think that any American needs to feel apologetic or a ha creditor for receiving what we loaned before we went into the war a

fter the Armistice and for various other non-military purposes, if the ayments on these debts amount to no more than I have indicated.

Furthermore, we find that many countries spend eight times as much on rmaments as they do on debts; in addition, Great Britain for example nds it possible to pay two and one-half times as much in doles, it finds it ossible to invest abroad $800,000,000 a year on the average as compared ith $160,000,000 that it pays us; Great Britain also has income from for-ign investments of well over a billion dollars a year, probably a billion nd a quarter, or seven times the amount it is called upon to pay us.

So, from any point of view that you can work out, when compared with otal transactions, these debt payments cannot be regarded as especially nerous. We could, however, to our own advantage and that of our ebtors lower our tariff and thus facilitate payment.

Who are the people that want cancellation? It is often worth while to sk that question. First, of course, they are the European governments. hey contend, not officially but through their press and their various un-fficial spokesmen, that not for their sakes but for our sakes cancellation good business for us.

Ever since the war it has been quite apparent how concerned, how olicitous the rest of the world was that the United States should prosper. hey have been grieved to see our lack of prosperity. They have worked ard to try to improve our competitive position abroad and so they want s to cancel, for our good.

The second group largely consists of international bankers and they want ie debts cancelled, many of them. It seems to me that I have heard of rtain foreign loans that have been made since the war. As a matter of ct, I have a sheet here showing the offering prices of these various loans id the present prices. Perhaps some in this room could speak from rsonal experience. It also seems that short-time debts have been in-easing, and we need to make a bond market and we need to float some ore long-time loans.

The only way for doing that, of course, is to increase the credit base. ne way of increasing the credit base is by cancelling the present debts cause those are owed to the United States people as a whole, whereas nds are owed to particular individuals, and the safety of those bonds ould be considerably improved by war debt cancellation.

There is also a grave question, as everyone knows, as to whether repara-n or private debts take precedence in Germany. It would clear up that cture very much to have these foreign debts cancelled, or at least re-ced.

I am not trying to be cynical. Of course, everybody emphasizes his own interest, and the fact that international banking houses, houses interested in foreign loans, want to see those loans strengthened or increased is not only natural but proper. Just the same, the rest of us should look at this thing and see whether the principal advantage is for the international bankers and the private bond holders, as opposed to the average American citizen who receives only ½c. a day on debt account.

Then there are those who believe that the United States has not been generous. They say mostly, "Look at Great Britain. Under the Balfour principle Great Britain cancelled all of its debt except the amount that it required to pay the greedy creditor, Uncle Sam."

Well, yes, but have you ever taken the trouble to look at those debts? The major part was owed by Russia and Italy and by certain other countries which could not possibly pay. Therefore, I do not think that Great Britain deserves any vast credit for trying to get from its creditors only that amount which was necessary to pay us, because it was certainly not likely to get very much more. Also, the payments which Great Britain exacts during the earlier years of the funding agreements are relatively much heavier than those exacted under the American arrangements.

Great Britain raised the contention in the Balfour note that it borrowed only to lend to its allies. I have not the time to go into that now, but it is not true. Also, it maintains that it guaranteed the credits to other powers borrowing from the United States. That is not true.

Therefore, we need not be worried about driving onerous bargains with these countries, and saying that Great Britain or any other country has been more generous in the terms of settlement, or that our contribution for the war, which has amounted to about $38,000,000,000, was a negligible amount or compares unfavorably with the contribution made by any other country, particularly as the war was not in any degree due to our shortcomings.

In summary, let me just state a few axioms:

First: Nobody likes to pay debts.

Second: Nobody loves a creditor.

Third: Any kind of payment necessarily involves some sacrifice, but that does not necessarily mean that a debt should not be paid.

Fourth: Germany is the only country that is making net payments. The others are only transfer agents. The burden on Germany is not especially crushing.

Fifth: Germany has made the fastest economic recovery of any of the European belligerents since the war, with the possible exception of France. This is sufficient proof that Germany has not been so terribly treated.

Sixth: The wealth of the United States makes this country a very shining target.

Seventh: Nobody but ourselves is likely to look out for our own interests.

THE CHAIRMAN: The second speaker is an old friend to many of us, Mr. Paul M. Mazur. In a certain sense, Mr. Mazur is a request number, if I may use radio terminology. By that I mean that a few weeks ago Mr. Mazur was put on in the discussion period. He spoke for about five minutes, but we had so many letters asking us who that bright young man was who said more in the five minutes he spoke than some of the previous speakers had said in a much longer time, we thought the simplest way to answer that question was to put him on in a full dress affair.

I do not know whether Mr. Mazur knew that he was to be introduced in just that way; probably not.

Mr. Mazur is a partner of Lehman Brothers, and I suppose he will admit that he is one of these international bankers. He is author of "American Prosperity," and of a more recent book, "America Looks Abroad," and of many articles dealing with economics in the reviews. It is a great pleasure to introduce Mr. Mazur.

MR. PAUL M. MAZUR

MR. CHAIRMAN AND FELLOW GUESTS, LADIES AND GENTLEMEN: I think Mr. McDonald started properly. I find in his introduction a note sympathetic to another activity in which I am interested, not as an international banker. Mr. Sarnoff and I have mutual interests in the amusement business. There we find that the practice is to have trials. If the trial works well the person gets a full act; if it doesn't, he doesn't.

That puts me at a tremendous disadvantage. The last time I spoke I tried to concentrate into five minutes what should have taken fifteen minutes to present, and the talk was probably fairly meaty; now I am trying to spread over 30 minutes something that should take but five.

I am not going to talk to the subject because the subject was switched o me. When it was first assigned it was the perfectly categorical one "Should the Debts be Cancelled." While I was away the subject wa changed, apparently, to the more generic one.

I understand as a layman that one of the principles of foreign policy i what is called by its friends flexibility and what is called by its enemie vacillation. So, I am going to be steadfast and as a friend I am going t insist on your not allowing flexibility to be a factor.

I also find myself at a disadvantage because Mr. Cumberland has sai so many things—that I would like to dismiss everything I was going t say and direct my talk primarily to his talk, which, considering the "in validity" of the base was an excellent argument.

Also, that last remark about international bankers, which is known think in legal science as *argumentum ad hominem,* is a little unfair. I just happens to coincide with a picture cartoon that appeared in that grea journal of opinion, *The Saturday Evening Post.*

In that magazine there appeared not long ago a cartoon depicting a dis reputable man who apparently had seen his best days, standing and askin for something from a woman called *U. S. Public.* Back of him he held large bone called *Foreign Financing.* He himself was labeled *Europea Debt Cancellation Propaganda.* A dog was sniffing at the bone. The do had come out of a kennel the name of which was *United States Interna tional Bankers.*

At least Mr. Cumberland didn't refer to us as dogs. Mr. Warburg an Mr. Lehman, who are here as international bankers, and myself in a mino way, might take real exception not so much to the attack as to the symbo of the attack.

However, in spite of the fact that the charge of being an internationa banker weighs heavily on my conscience, and in spite of the fact that Mr Cumberland has done an excellent job I am going to continue on the sub ject as one definitely in favor of cancellation of the debt. I am going t accept practically all that Mr. Cumberland has said and I still say that I am in favor of the cancellation of the debts.

I suppose in the vernacular of the boxers that is sidestepping the blow To me the subject is primarily one of American interest and not one o European interest. If you will divorce me, in your own minds, from th position of international banker and consider me as an individual concerne in an American problem I think perhaps you will be fairer to what I ar going to try to say.

I would agree thoroughly that the problem of the debts as a factor in his world situation is too difficult to offer a basis for the entire explanation. A depression, such as we have had (and I am not quite so sure that it has been as short-lived as Mr. Cumberland points out) and which we have now—is too broad in its geographic extent and too deep in its intensity to apply to any single cause the responsibility for the entire trouble.

Moreover, in that complicated economic system in which we live it is difficult to isolate any single cause and evaluate that cause as contrasted to any other.

I would like to take this moment simply to cancel, if I may, an impression which Mr. Cumberland may have left in your minds. Had he gone on to the payment per hour instead of per day it would have been a much smaller figure.

At the present time we are living in one of the most serious depressions that this country has ever seen. May I remind you that the difference between the point that existed in February of 1931 and the high point that existed in July and August of 1929 is less than the total amount of the foreign debts involved?

So, if we reduce that difference to a per capita basis we will find that there is practically no cause for worry. But, apparently the situation is serious; and the per capita basis of measurement may not be in itself a fair method of procedure.

Another reason why I chose to retain the subject was because I discovered in *The Nation* an article by Villard on the subject "Can Germany Pay?" While I do not think he answered that question, but rather the question, "Should Germany Pay," nevertheless he did make an excellent case.

He said that while reparations are not a major cause of the present depression they are contributory.

Second: "There is a limit beyond which no people can, in humanity, be depressed in their standard of living, and the bulk of the German people have reached that limit.

Third: "If the German people are still further depressed economically there will inevitably come fiercer internal political conflicts, more and more rioting for food, and the strengthening of all the reactionary elements, especially the National Socialists, with probably a dictatorship to follow:

Fourth: "Then, there is the psychological effect of cancelling of reparations and debts upon the mentality of Europe; that would be incalculable.

Fifth: "In good will alone wiping out reparations would pay all creditor

nations in dollars and cents, and most particularly would it pay the Unite States."

That is a fair summary and if I were wise I would say that the d fendant rests his case and would let you take as the answer Villard's poi as the plea. However, that wouldn't mean a speech on my part, and aft all, I am here for that purpose.

More than that, I am not sure that I entirely agree with Mr. Villar I have a bad habit of finding myself in disagreement with many people, an if I should some day discover someone with whom I can agree whol heartedly that would be a red letter day. But in this case I think the poi of view of Villard causes me to disagree.

In the first place, I think this debt question is thoroughly an America problem. I do not think there should be a sentimental basis of settlemen The debts were contracted legitimately and they are definite obligations Europe. I have seen no evidence of a new morality in domestic, nation or international situations to justify the cleaning of old slates.

The chief objections that I would like to add to those which Mr. Cum berland raises to the cancellation of the debt are, first of all, that it mea increased taxes for the United States citizens and it establishes lower fo eign debts for Europe which will, perhaps, encourage the rebuilding armaments and a new war in shorter time.

As I remember my history of 1914 economists said that that war cou not last more than 60 days because there was not enough money. But, lasted for over four years. Lack of money, at that time, did not have a particularly adverse effect upon the war and upon its duration. Neverthele I think that if we should have, at some time, any cancellation or change the debts unquestionably it should be tied up with provisions for the eli ination or the reduction of armaments.

Is it wise for America to force payment of the debt?

I appreciate the position that Mr. Cumberland takes because it simplifi the situation—that this problem is primarily one of Germany and Americ

During the formation of the Young Plan—and I feel humble here b cause Mr. Sarnoff had so much to do with it that I feel like a rank am teur—the allies sought to do one thing primarily, namely to transfer to t shoulders of Germany the responsibility for their debts to America. Th were successful and we can look at the problem of interallied debts as German-American problem and not as an international problem, inter tional in the sense of being broader than those two countries.

Let us look at Germany for a moment, if we may, not in terms of wh she pays but in terms of the relation of the situation to America.

Before the war Germany was known as a creditor nation. She was a

a nation which had an import surplus. She bought more goods than she sold. She was a great customer, in fact a greater customer than a salesman. That was true by an amount of $400,000,000.

During the war, and since the war, she has lost her creditor position. Her citizens sold their foreign investments. Through the operation of a small device invented in England and really perfected in the United States, called alien property custodianship, there was sacrificed for Germany, for good patriotic reasons of course, a great deal of the German assets which existed in both England and America. I think that was the first time in international history that such a step was taken.

Nevertheless, economically the result was that Germany lost her hold on many of her foreign investments and they were sequestered and sold at sacrifices. A great many Germans who had foreign investments influenced by their own "liberty loan" drives, sold those investments.

Moreover, you may be aware of the fact that as a result of the war Germany lost a great deal of territory and a great deal of raw material, particularly iron, coal, and potash, and her position in raw materials is more serious now than it was before. And now we have imposed on that same country the responsibility of the Young Plan which is a conversion of the Dawes Plan.

It is questionable whether the Dawes Plan would have lived by itself on the old basis through 1929, and it is more questionable whether it would have lived on any basis in 1930. The formation of the Young Plan in 1929 was, I think, an unhappy accident for Germany. But, it is a fact nevertheless that the Young Plan imposes on Germany the requirement of paying about $400,000,000.

The total change in the position actually is as follows: whereas Germany was allowed to import in excess of $400,000,000 before the war now she must export a surplus of $600,000,000 to pay for those debts and for the foreign loans which she has accumulated. That is a change in the position of about one billion dollars.

Germany has no gold, or practically none, to all intents and purposes. International debts are finally settled in gold or in goods. Germany, having no gold, one from two leaves one, and therefore Germany must pay that obligation in goods. She must create credits so that she can not only collect her taxes, which are a domestic problem, but also so that she can transfer the funds to other nations in francs and lira and dollars and pounds in order to pay her obligations to these countries. She must have credit in England, France, Italy and America so that she can accumulate the funds that are necessary.

As Mr. Cumberland said, the problem is, in the reverse situation, an American problem. The American situation changed more dramatically than did the German situation. Before the war America was the debtor nation. We were an export nation and we maintained a surplus of exports which, by the way, was the only basis upon which we could remain solvent inasmuch as we were a debtor nation.

During the war a great many things happened to us. In the first place we bought back practically all—and I am not trying to be literally accurate—of the foreign debts in this country. For example after the war American investors owned the Santa Fé Railroad whereas before the war the French owned it.

We loaned a great deal of money to Europe so that by the end of the war, or more accurately perhaps at the end of 1929, we were the greatest creditor nation in the world's history. Nevertheless we were still an exporting nation.

Economists would say that such a situation is impossible, so that in reality we were actually doing the impossible. But it wasn't so impossible: it was really very simple. All we were doing for the years 1920 to 1930 was advancing money fast enough to Europe to enable her to buy goods from us. If that situation could continue forever perhaps we could solve the problem without consideration of cancellation of any of the debts.

But, in the latter part of 1929, and in 1930, for some reasons, either due to the conditions in this country or because of retaliatory measures in Europe, or due to lack of income in Europe, exports dropped so that I think today we are exporting 55 per cent of what we were exporting in 1928. That, by the way, represents an amount which is the equivalent of the entire automobile industry in this country.

While you are thinking of per capita, think of single industries, like the automobile industry which has been an influence and a factor in the growth of America in the last ten years.

We are now a creditor nation and we cannot continue indefinitely to maintain an export surplus, because after all interest will catch up on principal and ultimately we will have to receive goods to cover every dollar of payment of what we call the invisible balance in our favor. That invisible balance is made up of interest payments primarily.

The position of America is inevitable. One day—and I am not saying just when because I do not think that the reparation problem is an immediate problem—we will have to become an importing nation by an amount equal to $500,000,000 or $1,000,000,000 as against an export position before the war of $500,000,000 in our favor.

Every dollar of interest that will be paid by Europe must be paid by the acceptance on the part of America of European goods. Every dollar of European goods means a dollar of competition with American goods. And it isn't the factor of the profit, of 10 per cent, but it is a factor that deals in entire amounts. It isn't a factor of the profit alone being involved but it is a factor of entire cost of that particular thing. No matter what it is that goes into the manufacture of a thing, 95 or 99 per cent of all cost of production is, in the final analysis, wages. That is true whether those wages go to the management or to the worker, or for the loan of the capitalist's money, or to the machine builders for the building of the machines, or to the operators for the working of the machines.

We have to confront ourselves with this problem: Is it worth while for us to accept payment for debts in the form of goods which are directly competitive with American labor or with American capital?

May I remind you of one thing that happened after the War? Under the terms of the Versailles Treaty it was provided that Germany should pay in kind. One of the first items was a huge amount of ship tonnage that was to go from Germany to England. English labor said that the payment was destroying the work that was under way in England and it was stopped.

That type of situation is the same as the one with which we are confronted. Every dollar that we receive for interest payment must, in the long run be represented by a dollar's worth of foreign goods received by this country.

The amount of the reparation payment is $250,000,000 to $350,000,000 each year, and it goes up each year. The percentage in relation to the whole position is actually 40 per cent of what is likely to be our import balance so that it can be called a huge figure. The influence of that small percentage upon the body politic, or economic system, is dramatic.

Those of us interested in the so-called science of economics realize that 10 per cent difference represents the difference between prosperity and depression. We must be careful as to how freely we deal with percentages.

I haven't talked of taxes very much because most of us would prefer taxes with prosperity to lack of taxes with depression.

But what of tariff? When imports threaten too much all we have to do is to put up the tariff. It seems to me that by this time the magic of tariff has outworn itself. We now have the highest tariff and yet we have one of the greatest depressions that we have ever had.

If there were ever a time for us to say that that particular utterance is one of false witch doctors who fail to recognize other factors and have

assigned to the wrong cause the right result, this is the time. Certainly we have to recognize that mass production, another great element in the "false" formula of American success, hasn't proven itself to be any bonanza. We have to recognize that we are not so isolated a country that a world-wide depression, as our administration so euphemistically calls this one, hasn't its serious effects upon us after all.

No, tariff certainly has not justified itself as any abracadabra by the utterance of which we make bad into good.

Tariff will do one thing and it is doing it effectively: it will shut us out from the growth taking place in the world. When one realizes the extent of the world, the small size of America relatively, the backward standards of living in other countries, it seems to me foolish to blind ourselves so completely as to say that we live in a self-contained heaven regardless of the heavens that may be greater and firmer beyond us. Such a preclusion will come from unwise tariff.

Therefore, we have this problem ahead of us: Is it wise to accept $250,000,000 to $350,000,000 of goods, or is it wise for us to cancel this obligation so that the world can start on a more favorable basis without that burden? Should we confront American labor either with the necessity of competing with $250,000,000 worth of goods, or with the equally great necessity of eliminating $250,000,000 worth of foreign markets, or should we say that that by itself it not a desirable thing?

Our answer lies fundamentally in limiting the extent of this problem as much as possible. I should say very simply that if we save in taxes we lose in income, so that the thing is 50-50, six of one and a half dozen of the other.

When we get beyond that point to look at some of these more generic things, again from the American point of view, it seems to me that particular conclusion is emphasized.

Theoretically, the war has been over for about thirteen years, but the war is still in existence as far as a working philosophy in Europe is concerned. I believe that the cancellation of the debt, the settlement of reparation problems, would bring peace to Europe and that would mean the restoration of peaceful methods of industrial growth. It would also mean that Europe would be opened to America as an actual buyer.

By the way, you should remember this as far as Germany and America are concerned. Germany was one of the greatest customers that America has had. Germany must sell a surplus to America under this plan. It is just as though they were in business, and one of our best customers said to us, "I cannot buy $1,000,000 of goods from you, but I must sell you $1,000,000 worth of goods."

If the cancellation of the debt took place I think we would eliminate political chicanery.

Give Europe a chance to build itself up on an economic basis and the industrial development which will take place in Europe, particularly in Germany, will reach great heights and those great heights will be of advantage to America.

In addition, I think the cancellation of the debts will mean the repatriation of capital in Europe. There has been a terrific outgo of capital from Europe, particularly from Germany to Switzerland and Holland, because the owners of that capital in Germany don't feel that it is safe there. The needs of Germany have had to be supplied by foreign instead of domestic capital. When we eliminate fear, the possibility of Europe growing with its own capital will be tremendously enhanced.

At the present time there is growing up in Germany a movement encompassing a group of young people who do not remember the war, but who can see only its consequences. I suppose we could label that movement Hitlerism. It is the so-called Mussolini movement of Germany. It is a factor that is disturbing because it is unsettling. Once you eliminate the war debt question you eliminate Hitlerism. If we remove the German barrier that has existed for the protection of the capitalistic system we do so at our own peril.

More than that, I think we will see a renaissance of growth in the backward nations of the world. I think we will see credit actually moving through the channels of trade. That credit offers a tremendous opportunity to America. We, from an industrial point of view, are the best equipped in the world to take advantage of world growth.

We throttle ourselves by a limitation of our exports; we eliminate from ourselves any participation in this world growth which, after all, must be only at its dawn.

The whole industrial revolution isn't much over one hundred and fifty years old; so that it is stupid to think that we are past the apex of industrial development. If we think so, we blind ourselves to the possibilities and to the real, vital facts that exist in world growth.

I have made no argument on the basis of the fact that the war debts represent either a large obligation for Europe, a legitimate obligation for Europe, or an ethical one for Europe. I am not a Pan-European, or an Anglophile, or any other kind of a "phile." I am thoroughly interested in the American point of view and am talking only from that point of view. The imposition of the interest payments upon Europe is an imposition on American industry and American labor.

There is one obvious fallacy in my plea. If cancellation of the debt is so effective, as I glibly state—then why not cancel all debts and why not cancel private debts?

If we were cancelling the same amount, economically there would be no difference; we could cancel whatever proportion of the foreign debt is in the hands of American investors. There would be no difference in effect but it would be impossible of accomplishment. The so-called interallied debts are in the hands of a small agency, even though that agency is the government of the United States, and the private debts are in the hands of 3,000,000 or 4,000,000 people.

In addition the cancellation of the private debts, would actually discourage all future investments on the part of the private individuals. And for the temporary situation we need, fundamentally and not from the point of view of international bankers, help through the use of loans in this country in order to bridge this transitional situation. It isn't a very desirable thing for any of us to see us suddenly lose $2,000,000,000 in world trade. We cannot replace it as quickly as necessary, and it will live temporarily only because we are willing to finance it.

So, if we do anything in the way of cancelling private debts we will find that we have discouraged all future investments. The world trade needs private investments, so that whereas I might agree thoroughly that there is no difference in the arithmetic; there is a fundamental difference in the business sense of it.

Let us consider the cancellation of the debt, not as a European problem, but as an American problem. From my point of view it seems incontrovertible that inasmuch as the foreign debts will be paid in European goods in this country and inasmuch as the problem of imports will be one of the most vital we will face in the next ten or twenty years of our growth, it seems to me desirable to take advantage of a situation that offers other advantages beyond those that are purely domestic. Surely there are many advantages that make advisable the cancellation of the debt.

THE CHAIRMAN: Before I open the meeting for a general discussion I would like to put one question which has been sent to me. It isn't addressed to either of the two speakers, but it is addressed to Mr. Sarnoff who is sitting here next to Mr. Mazur. The reason that I am anxious to put this question is that it takes exception to a scheme—the Young Plan—with which Mr. Sarnoff had more to do than any American save one.

Mr. Sarnoff was present at another one of our meetings some months ago when similar charges were made against the Young Plan. I didn't have the gumption, then, to ask Mr. Sarnoff if he would reply. I am going to make up for that by asking him now. This is the question: *"Is it not true that the Young Plan is the real difficulty? Is it not so unfair to Germany that it should be changed immediately?"* Or, as Mr. Mazur suggested, wasn't the Young Plan so much the result of political chicanery, or horse trading, that it ought to be brought into line with the newer ethics which someone was referring to?

MR. DAVID SARNOFF

MR. CHAIRMAN, LADIES AND GENTLEMEN: I came here to enjoy myself at this luncheon, and up to this moment I did enjoy it. I did not come here to speak. But, since the question is directed to me I will attempt to answer it.

First: While I appreciate the Chairman's generous references to my connection with the Young Plan, I regret I cannot accept the measure of credit he so kindly ascribes to me. I was only one of the "bell-hops" attached to the American Delegation.

Secondly: I wish to state that the Young Plan was not imposed upon Germany. Germany asked for a meeting of the experts in Paris to make definite what was theretofore indefinite. The Dawes Plan, which was a great piece of work, existed up to the date of the adoption of the Young Plan. But it had no limit as to the total amount to be paid by Germany. It was at the invitation of Germany, as well as the other countries, that the experts, and their chairman, Mr. Young, came to Paris for the purpose of constructing and agreeing on a definite and final plan which would settle the troublesome question of reparations. Therefore, as I said, there was no imposition of terms upon Germany which was a voluntary signatory to the Young Plan.

Thirdly: The question must be considered in the light of what would have happened if there had been no Young Plan? It is all very well to look back now, with the knowledge that we have today, but at the time the plan was developed (1929) the world was prosperous and Germany sought relief from the higher payments she made under the Dawes Plan. Germany sought final definition of her reparations payments. Had there been a failure in Paris and no plan agreed upon, I leave you to speculate as to what might have happened to Germany and to the rest of the world. Remember that French soldiers were still on the Rhine and their withdrawal was made possible by the Young Plan.

Fourthly: What did Germany get out of the Young Plan? As a matte of fact, German payments were reduced as compared with those called fo by the Dawes Plan. Over a period of thirty-seven years this reductio will benefit Germany by something over $100,000,000 per year. Of cours our speakers today have been reducing billions and millions in terms of s many pennies per day and per hour and it may therefore seem that suc reductions as I mention do not mean very much. Nevertheless, they wer substantial in Germany's mind at the time, and still are very much wort while.

Further, the payments, under the Young Plan, were graduated as agains the Dawes Plan payments which called for the maximum of Germany's cap acity to pay during each year. In other words, the Young Plan begins wit very small payments, with moderate yearly increases until the maximur annual payments are reached. The first year under the Young Plan, believe, some twelve hundred million marks are to be paid as agains twenty-five hundred million marks which were being paid under the Dawe Plan. So, the immediate reduction in Germany's payments was approxi mately 50 per cent.

If you consider that the request was made by Germany to substitute definite plan for an indefinite one, that the Allied soldiers were still on th Rhine, that there was no question as to whether Germany owed the mone or whether she should pay reparations, it seems to me, and I believe it doe to a great many people in Germany, that the Young Plan was an aid an not a handicap to Germany.

Of course, psychologically, the Young Plan did this. Whereas up t the day of its adoption the Germans had a vague idea that they owed som money, they didn't know how much they owed. The Young Plan name a definite sum. The minute folks are faced with a definite liability the naturally think of that liability in more tangible terms than they did before

Mr. Chairman, my view is that the Young Plan was not a hindrance bu an aid and, that it is not the cause of present world difficulties.

While I have not been asked to express my opinion on the question o the day, and therefore I express no views on the subject of cancellation o war debts, I do wish to suggest for consideration one point which neithe speaker has mentioned, but which each speaker, I am sure, has though about. It is this: When the Young Plan was recommended in 1929 it wa put forward on a gold basis. At that time a dollar gold meant somethin different than it does today in purchasing power. A dollar gold was abl to buy less commodities in 1929 than it is able to purchase today.

Therefore, assuming that a certain payment was expected in 1929 should suppose that a reduction in these payments, at least to a point whic would equalize the difference in the price of commodities existing at th

time of the adoption of the Young Plan and those existing now would involve no cancellation and might be reasonably considered by all parties interested in reparation payments.

THE CHAIRMAN: During the course of the discussion I received a long cable, or telegram from one of the radio audience. I do not know what part of the country the telegram comes from. It is a long question addressed, apparently, to Mr. Mazur.

"Is it not true that the growing indifference of Americans in favor of war debt cancellation is due to the fact that the League of Nations has fallen down on Mr. Wilson's fourteen points?" We have brought in the Young Plan and so apparently we are going to bring in some other things too. *"That the League has not helped minorities, that great nations have borrowed money from the United States and used it partly for military purposes, that France has asked for reduction and cancellation of her debt but is lending liberally to the Little Entente and Poland with a view to strengthening Germany and Europe. Are we not realizing, after the League has failed, that we are helping our trade competitors to get on their feet and be enabled to compete severely in markets we acquired during and after the war? Is it not true that even in the long run it is to our detriment to help Europe compete with us so long as Europeans are continuing to cut each other's throats commercially and otherwise? I expect to listen to the answer on the radio."* There is a simple question for you, Mr. Mazur.

MR. MAZUR: The asker of that question may be willing to listen, but I think it would take about another half hour to answer that question. He has brought up everything from the League of Nations to Wilson's fourteen points, both up and down.

I do not see how we could have a growth of indifference on the part of Americans to the war debt cancellation; I never knew we had an interest in the war debt cancellation.

I subscribe to his point of view on the League. I think he ought to read the Versailles Treaty, and if he can find anything in that which remotely corresponds to Mr. Wilson's fourteen points I shall apologize.

As far as France is concerned, I subscribe thoroughly to the questioner's point of view. I think France is doing an excellent job of cementing its position and is using her credit with which to do it.

I subscribe, again, thoroughly to the rest of his argument, that we should do nothing to promote the competitive power of Europe. That takes me right back to our attitude on foreign debts, that it is the greatest incentive to foreign efficiency. If we force Europe to pay she can pay only with goods. If she pays it with goods then she must manufacture those goods at the lowest cost of production so that she can offset our ability to sell at low prices.

As a matter of fact, may I say a word concerning the point Mr. Sarnoff made. The purchasing power of a dollar is higher today than it was in 1929, rather than lower. I think he meant to say that but said just the opposite. As a result of the higher purchasing power of the dollar, it makes it necessary to ship more goods to pay for those dollars.

The same thing happens when commodity prices are lower and the amount of dollars to be paid remains the same, it is necessary to ship a larger amount of goods out of the country.

Whereas 100 tons might have solved the problem before it now requires 120 or 130 tons to do the same thing, and we are forced to push upon Europe the necessity of industrial economy and industrial effectiveness and perhaps lower standards of living.

The situation which American industry will confront in this market as well as in the world is a situation made up of lower costs, of great necessity and great competitive skill on the part of Europe. If one would say, "Let's do nothing to help Europe," then the thing one should do is make Europe fat, and make it idle and lazy and not do just the opposite.

If you go back over history you will find that those nations which were debtors, were those nations which in the long run were industrially more successful than the others. That is one of the points that we should have made. We are encouraging Europe in competitive skill, not discouraging her by the imposition of debts.

THE CHAIRMAN: I should be glad to have a few questions from the floor. We have about thirty minutes for the discussion period.

Where is the first question from the floor on this subject of debt cancellation?

MR. SIEGAL: *If there should be a reduction of foreign debts because of the increase in purchasing power of the dollar, wouldn't it be equally obvious that there should be a reduction of the domestic debt? That, of course has been found to be fallacious in the past.*

I am addressing that question either to Mr. Mazur or Mr. Sarnoff.

MR. MAZUR: Mr. Siegal is correct, it has been fallacious, that is why t should not be done. There is no similarity in kind between a domestic and an international problem. Within the confines of a country you can do almost anything. You can have paper money, or complete barter, you can have credit relationships based upon your confidence in the government and the nation itself.

When you come to the question of international trade there are only two things which people trust: one is gold and one is goods. The tremendous reductions in Germany's domestic debt during the war as a result of the depression of the mark, it not a factor in international problems; the same thing would be true of America. You could cancel the domestic debt and you would have the problem of the receipt of goods from Europe on countries with which they could pay their international loans.

I do not know if that answers your question completely or not; it is supposed to.

THE CHAIRMAN: I have a question here which I am going to ask of a friend of Mr. Cumberland. I am going to ask Mr. Winston, Mr. Garrard Winston, who was the secretary of the American Debt Funding Commission, to reply to this query. It was addressed to Mr. Cumberland but since Mr. Winston was one of the makers of the debt settlements it seems appropriate that he should be asked to reply.

"Are you aware that the treasury reports do not warrant the impression held by many citizens that important concessions have been made by the United States to the debtors?"

MR. GARRARD WINSTON: At the time these debts were made the interest rate was fixed at the same rate as the United States government bonds. That was later increased to 5 per cent by agreement as representing the cost to America of the money. Then all of the obligations bore 5 per cent interest.

At the time of each one of these settlements the credit of no nation that made a settlement was as good as 5 per cent. Using the basis of 5 per cent as a discount the United States has accepted in settlements of the debt less than 50 per cent of the total debts.

I want to, if I may, while I am on my feet, say just one word about Mr. Mazur's argument. As I understand his argument for cancellation it is this: If you cancel the debts you must collect that amount from the American tax payer. That is obvious. But, if you cancel the debts you will create purchasing power abroad for American goods to the extent of $250,000,000 a year. If you do not cancel the debts you would not create that purchasing power for American goods.

Look at those two cases. If the debts are not cancelled you have $250,000,000 in cash and you have the goods. If the debts are cancelled you have the $250,000,000 in cash; but not the goods. I cannot see that as a business argument.

MR. MAZUR: Neither can I. I do not think I said that. If I did say that then I am very poor on exposition. What I said was this, that the existence of the debt would require inevitably the importation, by America into America of an amount of goods which is equal to that interest payment, and that as long as that happens, and as long as one recognizes the buying habit of America to be for the moment fixed, if $250,000,000 of the goods America buys have come from Europe that means $250,000,000 less have been produced by America.

That isn't a matter of a business proposition; that is a matter that is axiomatic; it happens that way. I do not say that Europe is necessarily going to buy $250,000,000 worth. It isn't a matter of Europe buying at all. She has to pay $250,000,000 in the export of goods. It is a problem within the confines of America. I hope that I have made it clear this time.

I would like to say one other thing about the question of price reduction. We have made such a virtue of this reduction of interest or the principal amount. It is true that we have made substantial changes. Whether the reasons are those that Mr. Cumberland presented or not, I do not know. Maybe we isolated the debts and used those that were definite pre-war or post-war, or we may have fitted in the commodity price decline which took place from 1918 to 1921. At that time there was a reduction, and a great many of these debts had been accumulated by Europe when the purchasing power of the dollar was less than when the debts were settled. Whether the reduction was in the form of a debt for specific purposes in this amount or the interest, or whether the change was made because of the change in the commodity price level makes no difference; there was a substantial change and that is unquestioned.

THE CHAIRMAN: Mr. Cumberland says that he thinks he can clear up this whole matter.

MR. CUMBERLAND: Those were not my words! But I do confess that I have scant patience with this fear of the United States receiving foreign merchandise.

Let me see if I can explain it in this way. Let us take an individual case. My understanding is that an individual is regarded as wealthy or prosperous or favorably situated if he has an income larger than he is able to earn by his own independent efforts; that is, if he has income from property. It seems to me that a nation is in precisely the same situation.

Let us look at Great Britain. It has foreign investments of some $20,-00,000,000 to $25,000,000,000. Has not that investment been regarded s the principal item of British financial strength for all these decades, nd now, as a result of the war, even by accident if you will, when we get to the same position then we become afraid of receiving merchandise, or f an adverse balance of payments as it is called?

In other words, it is getting something for nothing you might say. I nnot follow the argument at all. Why if we receive without cost certain illions or hundreds of millions of dollars worth of merchandise from broad, over and above what we have to send out in exchange, should we eel that we are going to be hurt, and that our industries are injured? All at happens is that we have a higher standard of living than we otherwise ould have had.

THE CHAIRMAN: Mr. Mazur says that point isn't quite that way.

MR. MAZUR: I find myself getting real solace out of this. I am glad Ir. Cumberland has no fear of this encroachment of foreign goods on the merican markets. All he has to do is persuade Mr. Hoover and Congress f that fact and then let us eliminate the tariff. I am all for that. Cer-inly there seems to be some fear of European goods in this country.

In the second part of his point, he says it is without cost. I am not so re that it is without cost. Let us reverse the process and say that what true for the individual is true for the nation, and then see if what is ue for the nation is also true for the individual. Let us see if goods at come in free are free to the people in America, especially free to those Detroit, or Akron, where they produce tires and cars, and free to the merican sugar producers in many instances.

But, that cannot be true.

We must be careful when we look at a problem in its national aspects at we are looking at it in its real aspect. The same is true in the reverse ay. Whereas the elimination of tariff might be an excellent thing for the tion as a whole it would not be excellent for the industries that were stroyed by the elimination of the tariff.

MR. COLT: We have heard a great many reasons today on the basis for anging the debt. I have heard nothing about the capacity to pay. *Has at gone by the board entirely on account of this more or less temporary nancial situation which we now have in the world?*

THE CHAIRMAN: I think that is a fair question to ask Mr. Winston cause we heard at the time of those debt negotiations a good deal about pacity to pay.

MR. WINSTON: Looking at the situation today, Great Britain is receiving more from Germany on its war debts than it is paying to the United States; the same situation exists in France and Italy and in Belgium.

As was said before, Germany is the ultimate debtor. Germany is continuing to pay, however. The question of capacity to pay at the present is met by paying. That question does not appear to be in the world. There are fears that at a time in the future capacity will be less and payments might not be made. It seems to me the sensible thing to do is to wait until that time comes and not be quite so fearful about it now.

QUESTION: *Is he a free trader; and if not then why not?*

THE CHAIRMAN: The gentleman deduces from Mr. Cumberland's argument that he should be a free trader. Mr. Cumberland, will you answer that question?

MR. CUMBERLAND: I do not want to dodge the question, but I do not believe it can be answered in just a Yes or No fashion. The question of tariff concerns both revenue and protection. I do not consider that it is either good business or good politics to have debts owed to us from abroad and to make it difficult to pay those debts. I regard the increases of tariff, which are so popular in all countries in recent years, as highly disturbing and undesirable and one of the more important reasons for the present economic depression.

I think that those tariffs are probably in considerable part responsible for the drastic fall in commodity prices and that fall in commodity prices, general price unsettlement, is by far the major cause in the present depression. Therefore, you get that chain of reasoning, first of all this country making it difficult to import goods when we, as Mr. Mazur has so clearly and correctly pointed out, have changed to a creditor country.

Therefore, like Great Britain or any other country which has by its labor and foresight worked into a situation in which it is able to consume more than it produces, by reason of being a creditor, we have been afraid of that clear cut advantage. We have run to a tariff, and the tariff has caused foreign trade unsettlement, and that has caused commodity price unsettlement, and that is the major factor behind the present depression.

THE CHAIRMAN: It looks as though Mr. Cumberland and Mr. Mazur are going to get together before we adjourn. Isn't there some question that will really start something of a different nature in the way of an opinion?

QUESTION: *Would it not be preferable in making the debt settlement to put the basis differently and charge the Allies, or hold the Allies, for*

hose debts other than those which seem to have been contracted as a substitute, as it were, for our getting into the war earlier? I would ask that of Mr. Winston.

MR. WINSTON: The negotiations of settlement of these debts, like retty nearly everything else, was a question of trade. You had to make he best deal you could make.

In making that deal you might have used various theories on which you ould make adjustments. Some of the nations and some of the debtors orrowed nothing prior to the Armistice. It all came after the Armistice. t would seem rather difficult to use the Armistice as a basis.

Looking at the actual results, again using a 5 per cent discount basis, in very case except England the amount of settlement was less than the noney advanced to the debtor after the Armistice.

QUESTION: I understand that Mr. Mazur fears an excess of imports. understand that foreign investments eventually require an excess of imorts over exports, and also I understand that a high tariff is designed to ncrease exports and to prevent imports. *Therefore, I wonder if Mr. Mazur favors the protective tariff and opposes foreign investment?*

THE CHAIRMAN: The questioner apparently deduces these conclusions rom some of the things that he thinks Mr. Mazur has said.

MR. MAZUR: In principle, I am definitely a free trader. I am not odging that question at all. I think Mr. Cumberland stated the same oint of view. He was in agreement with me there.

I started my argument on cancellation from the point of view that exists n America, and that is not free trade. Therefore, if we eliminate debts e eliminate the necessity of part of the imports. When I transfer a eneral point of view to a specific point of view on tariff I am not willing o say that we should have free trade. The burden of that is much too reat.

We must have modification. I think the administration and the busiess men in general must understand more about the mechanism of tariff han they do at present.

I am not willing to say that the tariff should be eliminated. Inasmuch s that is not likely to happen I am talking about the reparations question terms of American economics, in terms of labor and in terms of capital.

As far as foreign investments are concerned, there is no solution in forgn investments for this problem in the long run. There is a temporary leviation. For a certain period of time without question the most conructive thing America can do is to aid Europe to recover even though it is eating a future problem by extending foreign loans.

So, you must divide the foreign loan question into two parts: What will it do over the next ten years and how must it be adjusted to the situation beyond that period?

Categorically, for five to ten years it is wise for America to extend foreign loans and at the end of that time they must take inventory.

QUESTION: *Would the speakers prefer a moratorium on the inter-allied political debts rather than cancellation?*

THE CHAIRMAN: That question is asked of you first, Mr. Mazur.

MR. MAZUR: I doubt if it is going to be an academic problem. Dr. Schacht was talking about that, not from the point of view of Germany imposing it on the world but vice versa. If there is no solution of this problem I am quite confident the moratorium will come ultimately. I think we must readjust. I cannot see how Germany, with the growth of all of these retaliatory tariff measures can export enough goods to cover the balance against her.

From the long-time point of view, a moratorium, after all, is only a delay. It may be useful as a step in the interim. During that period perhaps it would be wise for the nations to get together and discuss this on the basis of the economics involved and not of the politics involved. I would subscribe to it inasmuch as that would be a temporary alleviation and would offer a period for solving the problem for all time. A moratorium is likely to come if we do not solve the problem otherwise.

THE CHAIRMAN: What do you think of that, Mr. Cumberland?

MR. CUMBERLAND: Moratorium is not quite the proper word; postponement.

If we take it in that sense, both the debts running to the United States and a large part of the Young Plan payments may under present arrangements be postponed for a period of two years. Like Mr. Winston, I think the conclusion is eminently sound, that the machinery at present operates automatically, and current agreements provide for the contingency of inability to pay over a limited time. Let us just wait and let things take care of themselves. The machinery is there and has thus far given no indication of breaking down.

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